

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

During a hearing entitled
“IDA-14: Historic Advance or Incremental Change in Debt and
Development Policy”
September 26, 2005

Good afternoon. I am delighted to have a chance to discuss today what has turned out to be an historic agreement to retire third world debt which originated in the Cold War. The Bush Administration deserves credit for its leadership in crafting this agreement. I am delighted that the new Undersecretary of the Treasury for International Affairs will testify to us for the first time on this topic. Let me also thank subcommittee Chairman Pryce for holding this hearing on such a timely basis. Subcommittee Vice Chairman Biggert also deserves a great deal of recognition for her years of work on development issues and for her leadership regarding these issues.

It is particularly relevant that we should receive testimony on this issue now. The Financial Services Committee is responsible for authorizing U.S. participation in, and funding for, various multilateral development institutions. This Committee's views are therefore indispensable to, and must be reflected in, any discussion of U.S. support for development assistance through these entities. Our role takes on heightened importance now, when the mechanism for U.S. participation in debt cancellation for the poorest nations on earth flows through the International Development Association (IDA), the International Monetary Fund (IMF), and regional development banks.

Over the weekend, the Boards of the IMF and the World Bank approved an historic package crafted by the Group of Eight countries to eliminate the debt burden of Highly Indebted Poor Countries (or “HIPC”), which they were unlikely ever to pay back. The deal also eliminates the debilitating round trip of lending to finance interest payments rather than real development in these countries. It uses the existing HIPC framework to ensure that only countries that make real reforms qualify for debt relief. This means that governments must demonstrate commitment to meaningful dialogue with their citizens, and invest in developing the human potential of their citizens in order to qualify for a “fresh start.”

The Treasury Department also deserves credit for finding a way to fund the U.S. share of debt cancellation in a way that will not unduly burden U.S. taxpayers. As I understand it, the United States usually disburses its contribution to the International Development Association (IDA) on an as-needed basis. Delivering our contribution through a mechanism known as “accelerated encashment” will permit the interest earnings to accrue to the benefit of IDA. I look forward to hearing more about how this mechanism will work to fund debt cancellation.

The Treasury Department has been working hard to secure global consensus on how to make debt cancellation a reality. With this weekend's historic agreements at the boards of the IMF and World Bank, it is now time to work with Congress which has the Constitution responsibility to guide the appropriations process on this deal. In this context, I would like to signal two questions for consideration as we start the discussion for how to authorize the U.S. contribution to IDA and debt cancellation. First, I have here a letter from the Group of Eight

Finance Ministers to the President of the World Bank, dated September 23, which I would like to introduce into the record. The Finance Ministers say they “will make available immediately additional funds to cover the full cost during the IDA-14 period and these funds will be fully additional to the resources already agreed during the IDA 14 replenishment.” It would be good to know whether that text covers accelerated encashment or whether additional funds are expected by the international community from the United States in the future.

Second, I note that little has been said so far in the debt cancellation discussion about the role that anti-corruption programs and trade promotion can have to breaking the lend-and-forgive cycle and to promoting democracy. I would like to underscore the importance of ensuring that any continued U.S. participation in IDA be paired with continued, meaningful reforms to fight corruption in development. We must do everything we can to make sure that development funds reach the communities and entities that need it most, rather than corrupt contractors and local government officials. We must do everything we can to promote local capacity for individuals and firms to tap the benefits of the global market and increase their standard of living through trade rather than aid. I look forward to hearing how the Treasury Department plans to move the ball forward on these issues in IDA-14 and beyond.